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ABSTRACT

This guide provides information for schools considering whether to participate in the Federal Direct Student Loan Program, and it offers advice on how to plan for and operate the loan program at an individual school. The information in the guide is presented in a way that follows the steps that need to be taken in planning and implementing the program at a school, moving first through the initial steps of: (1) making the decision; (2) making the switch; (3) getting started; (4) your computer system; (5) using commercial software; and (6) working with a third-party servicer. The guide then proceeds through the loan process, from application through reconciliation, and covers loan application, promissory notes, loan origination, estimation and drawdown, disbursement, loan changes, borrower counseling, consolidation, reconciliation, quality assurance, and reengineering. A final section explains how to get help. The appendix provides a list of institutions that can provide technical and programmatic assistance. (CH)

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Participating in the Direct Student Loan Program:

Tips for Success

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1999

Participating *in the* Direct Student Loan Program:

Tips for Success

Submitted to:

The Planning and Evaluation Service
Office of the Under Secretary

U.S. Department of Education

Submitted by:

MACRO INTERNATIONAL INC.

1999

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The Macro project team who carried out this study was composed of Fred Galloway, project director; Robin Koralek, case study team leader; Helene Jennings; Avis Jones-DeWeever; Wendy Mansfield; Alison Meloy; and Catherine Zudak.

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Introduction

In 1993 the Federal Government created a new student loan program, the William D. Ford Federal Direct Loan Program. The Direct Loan Program differs from the traditional Family Federal Education Loan Program, or FFEL, in that the Federal Government provides the loan principal for both student and parent loans; private lenders are not involved. The school certifies a student's or parent's eligibility for the loan, and the Department of Education sends the loan amount to the school, which disburses the funds.

Both loan programs have been operating since the 1994-95 academic year. As of academic year 1997-98, nearly $11 billion in Direct Loans have been disbursed accounting for approximately one-third of the total Stafford and PLUS loan volumes, with FFEL accounting for the remaining two-thirds.

As part of a 5-year evaluation of the Direct Loan Program, Macro International has had a great deal of contact with both schools and borrowers. Surveys of schools and borrowers have helped us learn more about their experiences with the program. We have also visited 32 schools to gain a deeper understanding of how a school plans for and implements Direct Lending.

➲ *Who did we talk to?*

This guide is the culmination of nearly 60 visits to schools operating the Direct Loan Program. Schools were selected to make sure that we represented the experiences of different types of schools—large and small, public and private, proprietary, community colleges, and 4-year institutions.

Over the course of our study we came to recognize the wealth of knowledge and information that schools have to share with each other. This year we focused on providing hands-on advice for schools that are thinking about changing to Direct Lending or are looking for tips on improving the way they process Direct Loans. We chose eight schools that had been successfully operating the program for at least 2 years and were willing to share lessons they had learned from their experiences with other schools.

Teams of researchers visited each school and interviewed financial aid office staff members and other people involved in the day-to-day operations of the Direct Loan Program. We asked them questions about how they implemented and operated the program, problems they encountered and how they overcame them, things they would do differently, and advice they would share with other schools.

This guide is based on the shared wisdom of all of the schools that we visited over the past 5 years. The comments and statements we heard during our visits are supported by a survey we conducted of thousands of schools participating in the Direct Loan Program.

What this is . . . and isn't

This guide offers you tips for making the decision to participate in Direct Lending. It also offers advice on the best ways to plan for and operate the Direct Loan Program at your school. The advice and guidance presented in this guide are based on information shared with us by schools that have successfully implemented the program. We visited those schools so that they could share the secrets of their success with others.

This is *not* a "how to" manual, nor is it a guarantee for success. It is important to keep in mind that every school is unique and what works for one school may not work for yours. For more detailed information on implementing the program, refer to the Department of Education's *Direct Loan School Guide, Direct Loan Technical Reference,* and *Direct Loan Reference and Resource Guide.*

If you are thinking about implementing Direct Lending, we strongly recommend that you attend Direct Loan training sponsored by the Department of Education, read materials from the Department, and talk to your colleagues. Above all, you should think carefully about your school and your student body and decide what best meets their needs.

Who should read this guide?

This guide was developed for a wide audience of schools interested in the Direct Loan Program. You should read this if you are

- ✓ Thinking about applying to participate in Direct Lending
- ✓ Applying to participate in the program
- ✓ Planning for your first year of participation
- ✓ Already participating in Direct Lending and looking for ways to improve your program operations.

How this guide is organized

This guide is designed to be user friendly. We have presented information in a way that should follow the steps you take in planning and implementing the

Direct Loan Program. We start with things you should think about when deciding whether or not to participate, under *Making the decision*. The manual continues with *Making the switch, Getting started, Your computer system, Using commercial software,* and *Working with a third party servicer.* The section on *The loan process* provides tips on each step involved in processing a Direct Loan—from application through reconciliation. The guide ends with some *Parting thoughts* from Direct Loan schools.

You may not need all of the information we have presented in this guide. Use the list of contents (just before this introduction) to help you find items that interest you.

An individual case study report was written about each visit, and each year a larger report was written to summarize the overall results of our visits. All of the summary reports and individual case study reports can be found on the Department of Education's program evaluation website at http://www.ed.gov/offices/OUS/eval.

I. Making the decision

When deciding whether your school should participate in the Direct Loan Program, it is important to know what to expect. It is also important to go into the program for the right reasons. There are many reasons for participating in the Direct Loan Program. You should carefully consider what your students' and your school's needs are and whether they can be met through the program. We asked staff members at schools that we visited to share why they decided to participate in Direct Lending.

➲ *Why do schools participate?*

1. To serve borrowers better.

"Direct Lending is the most efficient way of delivering loans. It's quick, fast, and easy."

Direct Lending is more sensitive to students' needs than FFEL. With Direct Lending, schools can provide more responsive service to borrowers, because everything is handled within the school itself. The financial aid office can work with students immediately instead of waiting for answers from outside banks or having to refer students elsewhere. Students are happier with the shorter lines and the fact that they don't have to keep coming back to the aid office to sign paper checks or resolve problems.

With the single point of contact, students only have to deal with one lender. Schools believe that since students no longer have to keep track of which lenders they used, the chances of their defaulting has decreased.

2. To gain control of the loan process.

"This is a better way of loan delivery. The banks were not responding to us. We had no control."

With Direct Lending, schools have control over the entire loan process, from application through delivery. They no longer have to depend on a middleman; they can take care of problems themselves instead of having to continually follow up with someone else. Loans are tracked efficiently; schools always know exactly where in the process a particular student's loan is. Has the prom note been returned? Has the money been credited to the student's account? Many aspects of providing loans are easier under Direct Lending, including loan application, loan changes, and revisions. There is a much faster turnaround time for loan delivery, especially for emergencies.

3. To improve their school's cash flow.

"We know where the money is. Students know exactly when they're getting their money."

Under Direct Lending, schools have more predictable funds availability—the school orders the money when it is needed. This allows them to plan better and manage cash more effectively. The improved cash flow benefits

everybody; more loans are available on the first day of classes, and schools can disburse funds whenever they want or need to.

4. To obtain more advanced technology.

"Despite the cost, the system is superior, so it was worth the investment."

By implementing the Direct Loan Program, many schools are able to improve the computer systems they use and are able to develop a plan for future technology improvements. The software and specifications provided by the Department serve as a motivating factor for many schools to move from a paper environment to an electronic one.

5. To move away from the FFEL Program.

"We were having a lot of trouble with FFELP—especially with the secondary markets. We had to deal with eight secondary markets."

Many schools were unhappy with the FFEL Program, perceiving that lenders were not responsive to their needs. Direct Lending eliminates the need to deal with multiple lenders, guarantors, and servicers. Schools cut down on time spent on paperwork and correspondence with the banks and focus their attention on the students themselves.

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II. Making the switch

If you decide to implement Direct Lending, it will be a completely new way of delivering loans to your students. You will now be responsible for all aspects of delivering loans to your students. Switching to an entirely new process requires time and effort, as well as commitment from everybody involved. For some schools, it will be a complete redesign of the way your office operates. For others, it will be a modification of procedures you now carry out. Some schools will need to involve additional offices such as the bursar or accounting in day-to-day financial aid operations.

➲ *What should you expect?*

"As an office, you have to be prepared to do the work that was done by three separate entities before. It's nice to have the control, but at the same time it means a lot more work for the office."

- ✓ A completely new process
- ✓ More responsibility
- ✓ A transition period
- ✓ A need for commitment from everyone
- ✓ A redesign—or at least a modification, of your school's procedures.

. . . All of the above!

Schools we visited told us that the transition from providing FFEL loans to providing Direct Loans was challenging in many ways.

➲ *Keep in mind . . .*

"The process itself was not difficult. Just unnerving due to the newness."

- ✓ The fear of the unknown can be overwhelming. You will be doing something new; it can be an uncomfortable feeling. Processing the first few applications can be especially unnerving, since you may not know whether you are doing them correctly.
- ✓ You will need to make time to train staff members. It is critical to make sure they are up to speed on the loan processes. It is difficult to find the time to train all of your staffers. Establish the best times for training—evenings, early mornings—when students will not be coming to the aid office for help.

- ✓ Students need to be educated about the program. It can be hard to decide when and how to tell them about the new loan program. Rewriting counseling materials and other handouts for borrowers may be time consuming.
- ✓ You will discover problems you did not expect. Even though everything may have worked perfectly when you tested the system, problems pop up when you fully implement the program.

On the other hand, schools also told us about the easiest aspects of switching to the Direct Loan Program.

➲ *What can you gain?*

- ✓ The hours your staff work will be more productive, because less time will be spent working with lenders and guaranty agencies. The greater efficiency will give you more time to work with students and focus on improving student services.
- ✓ Since you no longer have to work with multiple lenders, you will have much less paperwork to complete and keep track of.
- ✓ Control of the loan process will enable you to always know the status of a loan. The Direct Loan Program makes it quicker and easier to research individual loans, and you will be able to fix problems yourself.
- ✓ Students will soon realize that this is a good change. When students see how quickly you can deliver aid, many of their questions and concerns will be eliminated.

"I don't understand why more community colleges don't jump on it. Our student body is so transitory. It is so easy to handle loans when not dealing with a middleman. It is easier than sending checks and letters to various lenders."

➲ *It is important to remember . . .*

- ✓ You will experience a change in workload.
- ✓ It will not necessarily be an overall increase or decrease in work.

. . . But it *will* mean a change in your duties.

For example, you will spend less time working with lenders and guaranty agencies, but you will have new responsibilities—such as loan origination and reconciliation.

"Maybe the overall effect for our office was an increase, or no change, in workload, but the benefits definitely outweigh the effort."

III. Getting started

After making the decision to implement Direct Lending, you need to decide how to plan for the transition. Schools that we visited went about the planning process in various ways, but the one thing they had in common was that they all established a formal process for planning and assigning staff members' responsibilities. The approach you take will vary depending on the size of your school, your current level of automation, your anticipated loan volume, and the offices and individuals who will be involved in the day-to-day operations of the new loan program.

➲ *What should you do?*

1. Start early.

"We were in such a hurry that we just jumped in without having thought through the process. We started planning in January and were really sweating it out to get started in the summer."

Allow enough time to plan for your transition to an entirely new way of delivering loans to students. You will need time to research and discuss how Direct Lending will work, develop programming, install any new hardware and software, and train staff members. Switching to Direct Lending may involve redesigning your office and the way you do business.

- ✓ Allow at least a year, if not 18 months, for planning and implementing your transition.
- ✓ Install hardware, software, and other systems at least 9 months before implementation to allow for systems testing and modification.
- ✓ Leave enough time for slippage. Things will happen to put you behind schedule.
- ✓ Include time for hands-on practice.

2. Get buy-in.

To have a smooth transition, you need to get buy-in from all stakeholders. Include the "hands-on," front-line people in the planning process. Sell them on the process.

STAKEHOLDERS INCLUDE

- ✓ senior administrators
- ✓ staff from *all* involved offices (financial aid, bursar's, accounting, student records, student affairs, the president, etc.)
- ✓ students.

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- ✓ Bring everybody to the table. Recognize that this is a universitywide effort; share information and solicit involvement from all offices that will be affected by the change.
- ✓ Make sure that everybody—students, staff, and administrators—understands what is involved.
- ✓ Get across to stakeholders how everybody benefits from such a huge change. One school demonstrated how school revenues would change by switching to Direct Lending.

"Everybody has to be on board—from the students to the president."

3. Form a planning group.

Form a group that meets on a regular basis to discuss and plan for the changes. Schools we visited called their groups by different names—working groups, implementation teams, task forces, committees—but all were designed to facilitate as smooth a transition as possible.

- ✓ Include representatives from different offices that will be involved in the Direct Loan program (such as financial aid, bursar's, accounting, computer support, etc.)
- ✓ Involve your school's computer support staff early on in the process. It is critical that all offices work together with the programmer(s) to make sure that everybody is on the same page. You may need to hire an additional computer consultant to get you through the setup phase. If you use (or intend to use) commercial software, you will want to include the vendor(s) in your discussions.
- ✓ Have the team review Direct Lending functions and the Department of Education's software plans, assess the school's existing hardware and software, establish a schedule for implementation, analyze data interface requirements, and test the software.
- ✓ Divide your planning group into smaller teams, particularly if you are a large school, to address specific issues, such as policies and procedures, computer systems, communication and training, quality assurance, and marketing and public relations.

4. Talk to other Direct Loan schools.

Talk to other schools about the best way to implement the program at your school. Find schools that are similar to yours—that use similar systems and are similar in statistics and profile. At the same time, it is critical that you be very familiar with your own institution and your school's particular needs, and not just adopt someone else's model or system.

To find a school, use your professional network; ask around. Many States have coalitions or working groups made up of Direct Loan schools. The Direct Loan Task Force or your Department of Education Regional Office will also help you locate a school to talk to. The Task Force has provided a list of schools willing to provide assistance to other Direct Loan schools in the appendix of this manual. If you are using commercial software, get a list of other Direct Loan schools from your vendor.

- ✓ Learn from schools that have already implemented Direct Lending. They will have already worked through a lot of the bugs. It is much harder to start from scratch.
- ✓ Look at other schools' procedures and computer systems, including their flowcharts, loan processes, and programming. Ask about the procedures they used to implement Direct Lending.
- ✓ Visit a school—learn from watching its loan program in action.

5. Attend training

"The training and detailed manuals were instrumental in feeling comfortable. It wasn't as scary, because of the training."

Make sure you go to Direct Loan training—learn how the program works. The Department offers various sessions at Regional Offices, including training for new schools, throughout the year. Many professional association and regional conferences and workshops also offer sessions on Direct Lending.

- ✓ Attend Direct Loan training for new schools far in advance of program implementation.
- ✓ Send various staff to training; include staff from all involved offices (bursar's, computer support, financial aid, etc.).
- ✓ Make use of the Department's materials provided during training.
- ✓ Learn from other schools that have already implemented Direct Lending; conferences often include sessions on "best practices."

For schools using a third party servicer . . .

- ✓ Attend workshops offered by your third party servicer, or TPS. They should be able to relay information about the program and prepare you to use their software and systems.

6. Develop a plan.

Develop a plan to guide your entire implementation process—from start to finish. The plan should address all aspects of program implementation:

- ✓ policies and procedures
- ✓ hardware and software development and implementation
- ✓ staff training
- ✓ quality assurance, etc.

Include a review of the loan processes (application through reconciliation), the Department's software specifications, and the data requirements. You should also plan for testing the software and practicing the entire loan process.

"Things happened that are outside of your control. You need to plan thoroughly and be prepared for hiccups along the way."

7. Map out the work flow.

As part of the planning process, you should break down and map out the individual steps involved in processing a Direct Loan, from the time a loan application enters your office through the time the loan record is reconciled.

- ✓ Break down each process into steps.
- ✓ Understand the *why* of a process and how it all fits together.
- ✓ Look at the business processes and what you do under FFEL. Re-evaluate what your delivery would be, how you want it to be, and how best to do it.
- ✓ Conduct a full evaluation of your current office operations and of new operations under Direct Lending. Decide who will do what. How do and will things get done—and by whom?

For schools using a third party servicer . . .

- ✓ Talk to your TPS about which Direct Lending functions will be its responsibility and which ones will be yours.

8. Assign responsibilities.

In addition to mapping out the work flow, you will need to assign staff members responsibilities under the new loan program. Many of their responsibilities under the FFEL Program will no longer exist or will have been

"Assigning responsibilities was a natural division based on processes that our offices had previously performed under FFEL."

"Know your people, know their strengths and weaknesses, test the waters, and establish the official processes."

diminished somewhat. However, there are activities in Direct Lending that do not exist under FFEL.

- ✓ Discuss job assignments with everybody who will be involved in the loan program.
- ✓ Look functionally and across offices; include other offices that will be involved in the loan process.
- ✓ Assign functions to staff members based on their skills and potential.
- ✓ Cross-train staffers on standard operating procedures. You will need to have more than one person who knows how to perform each procedure.

9. Take advantage of the Department of Education's technical assistance.

There are many sources of assistance, besides training, available from the Department.

Schools recommend that you make use of these resources:

- ✓ Regional Offices
- ✓ The Direct Loan Task Force
- ✓ Direct Loan Customer Support
- ✓ The Loan Origination Center
- ✓ The Office of Direct Loan Policy

More information on those resources can be found in Section VIII—*Getting help*.

IV. Your computer system

The schools we visited use various computer setups to operate the Direct Loan Program—mainframes, stand-alone personal computers (or PCs), and mainframes linked to PCs by an electronic interface. Schools told us that if you have a large loan volume, a mainframe system was the way to go. Some schools even incorporated imaging technology. They scan forms (such as loan applications) into their systems instead of keying the information; this speeds the process and eliminates the need for paper files.

"We had to learn electronic processing in conjunction with the Direct Loan system. It was a banner year for learning new things."

> Your computer system is the backbone of Direct Lending. Do not underestimate its importance.

Schools also use various software packages—EDExpress (the software provided by the Department of Education for free), commercial software packages, and software developed by the schools themselves. Some schools use a combination of packages. For example, one school uses commercial software for the database on its mainframe, but uses EDExpress on PCs for transmitting information to the Loan Origination Center.

When selecting your computer system—both the hardware and the software—it is very important to do your homework. Hardware and software decisions depend on your school's structure, organization, and loan volume.

➲ *What should you do?*

1. **Be involved.**

   Your financial aid office should lead the process of selecting hardware and software. The FAO staff have the best understanding of what they will need the system to do. And they will be the primary users of whatever system you select.

2. **Determine your needs.**

   Determine the needs of your school. Will more than one person be using the system at the same time? Do you have a large loan volume? Will you need to maintain an additional database? What type of system are you currently using?

   - ✓ Think carefully about your loan volume before choosing your system.
   - ✓ Have a good understanding of the required Direct Lending functions and which pieces you will automate.

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- ✓ Decide whether a stand-alone system (just one PC), networked PCs (multiple PCs operating on one system), or a mainframe system will work best for your school.

3. Select your system.

- ✓ Evaluate your financial resources up front. Go with the fastest machines you can buy.
- ✓ Look at what you are currently using. If you are already using commercial software, does it offer a Direct Lending module/component?
- ✓ Study existing systems. Visit schools with similar characteristics (size, type, control, loan volume). What are schools with similar needs using?
- ✓ Know the minimum requirements at the outset (and if you are not there, develop a short-term plan to get there). Exceed the minimum requirements if you can; that way you will not have to upgrade immediately.

For schools with a large loan volume . . .

- ✓ Use a mainframe system. You will have too much information to work with it on a PC with EDExpress alone. Combination (or combo) systems (PCs and mainframes linked electronically) are not very efficient with large loan volumes; you have to transfer data from one database (the mainframe) to another (EDExpress). Combo systems also often require that staff enter data twice—once into the mainframe and once into the PC.

4. Develop a technology plan.

Develop a long-range plan incorporating future technologies—where you want to go and how to get there. This plan should include hardware, software, personnel, training, etc. Routinely evaluate and prioritize your plans.

5. Develop technical staff.

Develop in-house technical support staff who are experienced and familiar with your system. They should be trained on EDExpress or other appropriate Direct Lending systems.

- ✓ Have somebody in the aid office who understands the data and the systems and how to work with them.
- ✓ Send computer staff to as much training as possible.

6. Test the system.

"Until you are operational, you don't really understand the problems."

It is critical to test the entire Direct Loan system before you start processing "real" loan applications. This will allow you to figure out exactly what you are doing (or should be doing) and become comfortable with the software and the loan process.

- ✓ Create test files or "dummy" files, and use them to see what happens when you originate a loan.
- ✓ Run errors through to see what would happen. Test any kind of situation that you think might happen.
- ✓ Begin with a few loans at a time to become familiar with how the process works.

7. Back up your data!

"Back up. Back up. Back up. That database is all you've got."

Have a good, reliable tape system or network backup. Back up nightly, or schedule automatic backup. The Loan Origination Center does not have an electronic backup of your files.

For EDExpress users . . .

If you decide to use EDExpress, the software developed and provided by the Department, schools had specific advice for you.

- ✓ EDExpress is free, and it is easy to use with *small* loan volumes.
- ✓ The software is a "memory hog." It is not very efficient if you have a large loan volume.
- ✓ Do not have too many people using EDExpress at one time. If you have more than one person using EDExpress, designate one person to be in charge of maintaining the EDExpress database. You should consider creating a network of workstations to access EDExpress.
- ✓ Have two copies of EDExpress—one for lookup and one for production. New information should be entered into the production version and copied to the lookup version every night. This will protect your real database and provide up-to-date information to counselors and other staffers working with students.

V. Using commercial software

Many schools choose to use commercial software for Direct Lending. If you decide to purchase software from a vendor, there are a few things you should keep in mind.

➲ *What should you do?*

1. **Talk to other schools.**

   Talk to colleagues about their experiences using the software that you are considering. Ask them about their satisfaction with its ability to process Direct Loans. How did the vendor handle problems? Were they resolved quickly and efficiently? Is the vendor developing enhancements or upgrades? How are new products delivered—is it a smooth transition? Does the vendor provide technical support? Are they jointly and severally liable (both parties are responsible)?

2. **Visit a school.**

   Spend a day at a school that uses the software and watch them process Direct Loans.

3. **Ask lots of questions.**

   Talk to sales staff and assess how knowledgeable they are, both about the product and about financial aid in general. Do they have former financial aid professionals on staff? Ask them very specific questions about daily operational issues.

   Keep in mind that they are trying to sell you a product. Do not get bowled over by fancy presentations.

4. **Assess the software.**

   Schools vary greatly. What works for one school may not work for you. Know your institution's characteristics, and its strengths and weaknesses. Clarify what is unique about your needs and make sure the software addresses them. If your office is networked, make sure the software works well on your network.

   Involve a user to help assess software packages. Staff members, such as counselors, who will be using the software on a daily basis, will have a very different perspective from your technical support staff.

5. Develop a relationship with your vendor.

The vendor should visit your office and develop an understanding of your capabilities and your needs. They should work *with* you to decide what processes should be automated, what types of reports you would like to generate, and what other custom features to incorporate.

Become involved in the vendor's electronic discussion groups. Schools typically discuss issues and problem-solve via listservs.

VI. Working with a third party servicer

"We knew that there was no way we could know everything and perform perfectly."

Schools may choose to work with a third party servicer, or TPS. A TPS can help your school if you have a small aid office and do not have the staff to support all of the responsibilities of Direct Lending. If you decide to hire a TPS, you should carefully screen various servicers to find one that best meets your needs.

➲ *What should you do?*

1. **Talk to other schools.**

   Talk to schools with good track records, asking about their TPS and the services it offers. What kind of software does the TPS provide? Does it offer workshops and training? How large are its support teams? Can you get through if you have a problem? Does the TPS provide good, responsive service?

2. **Ask lots of questions.**

   Talk to staffers at the TPS and ask them about the services they offer. How often do they provide upgrades? How do they support upgrades? Do they have a good relationship with the Department of Education and State agencies? How do they relay information back to their schools? Do they have good electronic communication capabilities? Can they access your computer system online and help you problem-solve?

3. **Develop a relationship with the TPS.**

   A good relationship with your TPS needs both your school and the TPS to give 100 percent. The TPS will support you and provide much of the structure you need, but you need to have good data management and internal loan practices.

   Call the TPS if you need help; utilize them. If they have a good support team, it may not be necessary to speak to the same person each time. Learn who to go to with different types of questions—on drawdowns, on reconciliation, on audits, etc.

VII. The loan process—from application through reconciliation

Although the steps involved in processing a Direct Loan are outlined by the Department, schools have found ways to facilitate each stage of the process. The following suggestions should help you through loan processing.

The details of loan processing go beyond what we intend to present here and vary considerably, depending on the type of school and the computer system you are using. For a detailed explanation of the steps involved in originating a loan under Direct Lending, you should refer to the *Direct Loan School Guide*, the *Direct Loan Technical Reference*, and the *Direct Loan Reference and Resource Guide*, all published by the Department of Education.

➲ *What should you do?*

1. **Understand each step.**

   Understand what you do in each step of processing a Direct Loan before moving on to the next step. (Don't just memorize!) The loan process is sequential; mistakes made in one step will be carried through the rest of the process. Train staffers on about how the system works. Flow charts help explain how the steps all fit together and are interdependent.

2. **Automate as much as possible.**

   Automated systems eliminate a lot of human error. They also reduce the amount of work you will have to do.

3. **Develop a system of checks and balances.**

   Incorporate checks and balances into your system. They should be incorporated into all of the steps of Direct Lending. The checks, or edits, will allow you to catch mistakes or missing information before you transmit information to the Loan Origination Center—saving headaches later in the process.

For schools using a mainframe . . .

- ✓ Incorporate internal edits to clean your data before transmitting them to EDExpress.

4. Implement a production schedule.

Carefully consider the timing involved and develop a regimented production schedule for the entire loan process. The production schedule will tell you when each step of the loan process needs to occur—which day (or night) of the week. Having a schedule will help keep the entire loan process on track.

5. Keep a log of transmissions.

"What goes out must come back. Follow through."

Develop processing logs to help you keep track of transmissions—what you send to the Loan Origination Center and what you receive back. The logs can be as simple as a piece of paper in a notebook.

Schools we visited have specific advice on each step of the loan process.

➲ *What should you do?*

LOAN APPLICATION

"Use the FAFSA as your only aid application. Why clutter your office with additional applications?"

Think about the particular needs of your student body and your school—and what works best—when you are developing and implementing loan application procedures.

✓ If possible, use the FAFSA as your only application form.

Using the FAFSA as the only application form for financial aid eliminates unnecessary paperwork for you and borrowers to keep track of.

For schools with multiple campuses and multiple financial aid offices . . .

✓ Give the individual campuses responsibility for and control of the loan application process.

For proprietary schools . . .

✓ You may need to develop multiple packaging options in your software to accommodate the different start dates, programs, and costs of attendance at your school.

PROMISSORY NOTES

Schools have the option of printing promissory notes whenever they wish to—upon offer, acceptance, or completion of the loan origination record. The timing you choose will depend on your packaging philosophy and your needs. If your awards are affected by outside scholarships, you may want to wait until after acceptance. If not, you may want to include prom notes with award letters. One school found that by printing on acceptance, they were able to keep prom notes a lot cleaner and reduce the number of prom notes that had to be reprinted owing to loan changes, etc. What works best for your students?

- ✓ Develop a tracking system.

  A tracking system will help you keep track of which borrowers have returned their signed promissory notes and which ones haven't. An automated tracking system will automatically generate letters to students who have not returned the signed prom note after a specified amount of time (e.g., 3 weeks). Often smaller schools find that they can track the status of prom notes by hand. Usually schools incorporate a safeguard into their system that prevents funds from being disbursed until the signed prom note has been received and logged into the system.

- ✓ Send prom notes to the LOC quickly.

  A loan is not federally backed until the prom note has been received and accepted by the LOC.

LOAN ORIGINATION

- ✓ Batch loans to get them back quickly.

  Think about how to batch loans to get them acknowledged as quickly as possible. Because of batch integrity, one loan may be holding up the rest of the batch. For example, parents with foreign addresses take longer in the credit check process, so loans with foreign addresses should be batched by themselves.

- ✓ Create a system to keep track of transmissions.

  Develop a system to track your transmissions to the Loan Origination Center and its acknowledgments (which let you know that the LOC received your information). This will help you keep tabs on where in the process everything is and alert you if the LOC does not receive a transmission.

ESTIMATION AND DRAWDOWN

"We have control of how, when, who, how much."

Schools may draw down funds on the basis of estimated or actual amounts of money to be disbursed to students. Many schools choose to "float" the money, or to disburse funds to students and *then* draw down, so that they do not have to worry about returning excess cash. Because the money arrives shortly after the drawdown is requested, the money is floated only for a day or two. Whichever method you pick, it is critical to draw down only the amount you are going to use.

- ✓ Be conservative with your estimates.

  Do not order too much money, so that you do not have to return excess cash.

- ✓ Know your student body.

  Take the characteristics of your student population into account. Do a large number of your students drop out and return their loan money? If so, you will want to take that into consideration when submitting your drawdown requests.

- ✓ Incorporate additional edit checks.

  Program an edit check that prevents you from disbursing funds to students until you have received their signed prom notes.

DISBURSEMENT

Many schools use an automated disbursement process to credit student accounts at the school. Some even credit excess cash to students' accounts instead of cutting paper checks.

- ✓ Practice careful cash management.

  Make sure all payments are recorded correctly.

- ✓ Disburse funds electronically.

  Credit students' accounts and issue refunds electronically. Your students will no longer have to stand in long lines waiting to sign their checks.

- ✓ Educate students about the process.

  Meet with students to explain the new process, especially how direct deposit works. This will ease many of their fears.

LOAN CHANGES

- ✓ Know the policies and procedures.

  Make sure you understand the LOC procedures and requirements so you can train staff members on how to make loan changes. Keep up on new instructions from the Department of Education. Make note of any modifications or new releases on loan change procedures.

- ✓ Develop clear procedures.

  Create very clear procedures for changes at each point in the loan process. Doing so will help ensure that loan changes and cancellations are made the same way each time.

- ✓ Train staff members.

  Internal training is the trick. Create a chart for staffers that includes scenarios and appropriate actions to take.

- ✓ Label changed loan files so that they are easy to identify.

  Change files are not as easy to identify as other electronic files; label their extensions so you can easily identify them. Include the date in the file names, to make them easier to locate.

"It's simple to go after additional funds. Under FFEL, a student would be encouraged to ask for more if they thought they might need it. Now we encourage them to ask for the minimum amount. Direct Lending is more efficient. The system is quick and students get what they need."

BORROWER COUNSELING

- ✓ Understand your student population.

  Tailor your counseling program to best meet your students' needs. For example, students at community colleges often do not come to their exit interview, so try to include some exit information in entrance counseling session. For schools with high default rates, one-to-one counseling may be more important.

- ✓ Emphasize debt management up front.

  Explain debt management to students, so that they will understand what they're getting into *before* they borrow. Pay special attention to students who have a history of not completing their program of study and heavy borrowers (including law students and medical students).

- ✓ Take advantage of the Department of Education's materials.

"It's very easy to borrow a loan; it's harder to realize what's involved in paying it back."

Supplement your own counseling materials with those from the Department.

- ✓ Make sure loan terms are clear and understood by students.
- ✓ Don't limit students' access to people with information.

  Personal attention from the financial aid office helps prevent students from defaulting.

CONSOLIDATION

The schools we visited tend not to get involved in the loan consolidation process except for advising students of their options and discuss timing with them. These schools do think that consolidation is a good option for students and stress the importance of providing students with accurate, up-to-date information.

- ✓ Be familiar with rules and regulations governing consolidation.

  Go to the Department's training. Be up to date on what's going on in consolidation so you can provide accurate information to students.

- ✓ Give students as much information as possible.

  Include information about consolidation in exit counseling information. Keep students informed about the process, so that they will be able to make an informed decision and the process will be less confusing to them.

RECONCILIATION

Reconciliation is a new and evolving responsibility for schools. It can be very intimidating at first; but if it is handled correctly, it is easy to do. (It is a little like balancing your checkbook!) Many schools have completely automated the process.

"Be on top of the reconciliation process; *know* it."

A more streamlined approach to reconciliation has been implemented for the 1997-98 academic year. Although we talked to schools about the old process, their advice will still be helpful under the new approach.

- ✓ Do your work *before* you get to reconciliation.

  Get regular (at least weekly) reports to monitor the status of loans, to alert you to problems as soon as they happen, instead of waiting until the end of the month. Work out the problems along the way.

- ✓ Reconcile at least monthly.

  During periods of high loan volume, you may need to conduct reconciliation more frequently. If you work the edit reports up front, there will never be a problem. Don't put it off; it will only get more complicated.

- ✓ Make sure your systems agree with the Loan Origination Center's reconciliation system. Learn how the LOC's system works.

- ✓ Do not unbook loans.

  If a loan has been acknowledged and booked once, don't unbook it. Unbooking causes internal problems and complicates reconciliation.

- ✓ Have a good internal control system.

  Don't just reconcile against the LOC. Create an internal reconciliation system.

- ✓ Conduct a discovery process.

  Work out the source of the error. Always follow up on rejected loans.

- ✓ Work with small, manageable manifests.

For schools with large loan volumes . . .

- ✓ Consider manifesting and batching loans by borrowers' Social Security numbers rather than by alphabet. This way, you will only have 10 numbers to organize by instead of 26.

Schools talked to us about two other aspects of operating the Direct Loan Program—quality assurance and reengineering. Some schools focus a great deal of energy on those procedures.

"Quality assurance procedures allow us to find our areas of weakness and implement procedures to reduce errors, enabling us to give aid equitably and consistently."

➲ *What should you do?*

QUALITY ASSURANCE

Schools have various ways to ensure quality in their loan programs. They range from informal feedback from students to highly developed systems of reviewing policies and procedures on a regular basis. Some procedures are

"You think you have it all figured out until you actually work it. Sometimes you have to work the bugs out as you go along. Build on what you learned from the prior year and try and make improvements."

specific and are based on areas of weakness identified by staff. Others are more general and affect the entire pool of financial aid applicants.

- ✓ Integrate quality assurance into your daily activities. Looking closely at your loan program will help you understand your program better and recognize what pieces are missing or need improvement.
- ✓ Meet regularly with staff and evaluate your procedures step by step. That procedure helps you continually adjust and improve your loan process.
- ✓ Target error-prone areas. Look to see where students are making errors. This will reduce the amount of work you have to do.
- ✓ Conduct random audits. Look at student records and trace anything that looks odd. This step will help you identify areas for further study.

REENGINEERING

"You need to have some kind of guideposts to get you through the process. If you don't have benchmarks, you don't know how you're doing, what you're striving for."

A few of the schools we visited reengineered, or modified, aspects of the way they run the Direct Loan Program. Changes ranged from modifying debt management counseling to switching from a combo to a mainframe system. Modifying the way you process Direct Loans can make your office more efficient and improve the services you provide to borrowers.

- ✓ Look at processes on a regular basis to make sure they get refining. Make a list of issues and areas for change. Keep track of issues that do not get resolved immediately.
- ✓ Establish benchmarks.
- ✓ Look at your whole system. What impact will changes have on operations?
- ✓ Be open to change and improvement.

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VIII. Getting help

Many people and places can help you with your Direct Lending questions and problems, both technical and policy related. The Department of Education has established several resources specifically to assist schools in the Direct Loan Program. Your colleagues are also valuable resources. There is probably somebody out there who has come across whatever problem you may be experiencing. Don't be afraid to ask for help!

➲ *What should you do?*

1. **Be proactive and be specific.**

   Try to *understand* your problem before you call, so that the technical support staff can work with you more easily. They are more than willing to help you, but they need to understand what the problem is.

2. **Establish a relationship right away.**

   Develop rapport with your technical assistance providers. Let them know your level of technical (or systems) knowledge. When you find somebody that you find particularly helpful, write down their name and phone extension so you will be able to reach them again.

3. **Think through what a reasonable response to your question might be.**

   Before following advice, think about the impact it will have on your offices and the services you are providing to borrowers. Do not take the quick fix; make sure your problem is solved.

4. **Keep track of how you resolved your problem.**

   Write down the steps you take to solve a particular problem. It may happen again.

5. **Make use of in-school support first.**

   Try to problem-solve with staffers from your school first. They may already know the answer to your question without your having to make a phone call.

6. Use the CPS for technical support.

Call the Central Processing System for questions about EDExpress software and transmissions. Its staff can also help you with technical specifications for your combo or mainframe system.

7. Call the Loan Origination Center with questions about transmissions.

Customer service staff at the LOC will help you with questions about transmissions, prom notes, batches, etc. It is important to take initiative and to be persistent with the LOC.

8. Don't forget your CAMs.

"Don't call them when it's too late. If you've got a problem, tell somebody."

Your Client Account Manager, or CAM, at the Regional Office can be a great resource. They are not involved in program reviews or audits. They support schools and help them to administer Direct Lending.

CAMs can be very knowledgeable about Direct Loan policies and procedures (such as reconciliation). Use them to support your staff and as a liaison if you are having trouble getting help from the LOC or the CPS. CAMs in some regions are assigned to schools on the basis of the type of system they are using (mainframe, combo, etc.).

For schools using a mainframe . . .

- ✓ Have a mainframe programmer on staff at your school. It will give you greater flexibility to program and operate your system.

"The tech support person at our TPS is not just a programmer and computer person; he is knowledgeable about financial aid. It's so important."

For schools using a third party servicer . . .

- ✓ Make sure the TPS has adequate technical support. If you are using software provided by the TPS, they should have technical staff available to help you.

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The Department has many places that you can call for help with your Direct Loan questions. We have included the phone numbers of the places that schools suggest you contact for assistance.

➲ *Who should you call?*

- ✓ For questions about Direct Lending procedures and operations . . .

  Direct Loan Task Force
  202/708-9951

- ✓ For questions about policies and regulations . . .

  Office of Direct Loan Policy
  202/708-8242

- ✓ For technical support . . .

  Central Processing System (CPS)
  Direct Loan Customer Service
  1-800-330-5947

- ✓ For questions about transmissions, batch status, prom notes, and acknowledgments . . .

  Direct Loan Origination Center
  1-800-848-0978

- ✓ For questions about Direct Loan servicing . . .

  Direct Loan Servicing Center
  1-888-877-7658

- ✓ For questions about *any* Federal student financial aid programs . . .

  Federal Student Aid Hotline
  1-800-4-FED-AID

- ✓ For questions about the Title IV Wide Area Network (WAN) . . .

  Title IV WAN Customer Service
  1-800-615-1189

✓ For questions about training or Direct Loan procedures, or other guidance . . .

Call your Client Account Manager at the Regional Office

A wealth of information—including policy updates, training schedules, guides and handbooks, and frequently asked questions—is available on the Department of Education's Internet home page. It can be found at . . .

http://www.ed.gov/DirectLoan

IX. Parting thoughts

Before beginning planning, schools have a few more things to share with you . . .

1. **The financial aid director needs to be in charge.**

   She or he should be aware of every step of the process. Even with a committee, all decisions need to go through a central point of contact.

2. **Think about fully implementing the program.**

   Think carefully about what will work best for your school and what types of staffing constraints you have. Most of the schools we have talked to fully implemented the program. Many schools believed that they could not handle the administration of two loan programs.

3. **Consider using electronic funds transfer first for a year.**

   Using electronic funds transfer, or EFT, for a year may ease your switch to Direct Lending. This will demonstrate to staffers and students that you can manage an electronic environment.

4. **Conduct a continuous assessment of your services.**

"Always strive for continuous improvements."

5. **Have realistic expectations.**

   Always keep in mind that Direct Lending is a new way of delivering aid for your school. The first year may seem like a lot of work, but once you have the system down, it will become second nature.

6. **Have a sense of humor.**

Appendix

A number of Direct Loan institutions actively support new schools entering the program by providing technical and programmatic assistance. Below is a list of these institutions by type, profile, and systems configuration. Contact should be made directly with the Financial Aid Director.

SYSTEMS CONFIGURATION—MAINFRAME ONLY

Public and Private Universities

University of Florida	Gainesville, FL	Karen Fooks	352-392-1217
Northern Arizona University	Flagstaff, AZ	Randi Perkins	602-523-9011
Ohio University	Athens, OH	Carolyn Sabation	614-593-9851
University of California	Berkeley, CA	Rebecca Davis	510-643-9158
Indiana University	Bloomington, IN	Susan Pugh	812-855-7087
Iowa State University	Ames, IA	Earl Dowling	515-294-0066

Public and Private Colleges

Lassen College	Susanville, CA	Connie Burden	916-251-8890
Fox College	Oak Lawn, IL	Jody Sears	708-636-7700
Dowling College	Oakdale, NY	Kristina Smith	516-244-3110
CUNY-Hunter College	Jamaica, NY	George Lipper	212-947-6000

Public and Private Two-Year Schools

Kings River Community College	Reedley, CA	Scott Thomason	209-638-0312
Kirkwood Community College	Cedar Rapids, IA	Peg Julius	319-398-1274
Indian Hills Comm. College	Ottumwa, IA	Kathy Meyers	515-683-5169
Gateway Community College	Phoenix, AZ	Janice McClain	602-392-5139

Proprietary Schools

International Business College	Lubbock, TX	Desi Richardson	817-380-0024
Devry Institute of Technology	Chicago, IL	Sharneice Jones-Snyder	773-929-8500
Star Technical Institute	Somerdale, NJ	Kim Berrington	609-435-7827

SYSTEMS CONFIGURATION—MAINFRAME/PC COMBINATION

Public and Private Universities

Oklahoma State University	Stillwater, OK	Charlie Bruce	405-744-7440
Colorado State University	Ft. Collins, CO	Kay Jacks	907-491-2127
San Diego State University	San Diego, CA	Bill Boyd	619-594-7416
Albany State University	Albany, GA	Kathleen Caldwell	912-430-4650
University of Michigan	Ann Arbor, MI	Pam Fowler	313-763-4119
Rutgers University	New Brunswick, NJ	Richard Woodland	732-932-7057

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Public and Private Colleges

Amherst College	Amherst, MA	Joe Paul Case	413-542-2296
College of Charleston	Charleston, SC	Don Griggs	803-953-1289
Los Angeles Southwest College	Los Angeles, CA	Kathaleen Stiger	213-241-5338
York College of Pennsylvania	York, PA	Calvin Williams	717-846-7788
Fairmont State College	Fairmont, WV	William Shaffer	304-367-4213

Public and Private Two-Year Schools

Chandler-Gilbert Comm. College	Chandler, AZ	Dougn Bullock	602-732-7120
Mercer County Community College	Trenton, NJ	Reginald Page	609-586-4800
Lee's Junior College	Jackson, KY	Chris Tolson	606-666-7521
Community College of Denver	Denver, CO	Ann Allen	303-556-2420

Proprietary Schools

Al Collins Graphic Design School	Tempe, AZ	P.N. Lanier	602-966-3000
Massachusetts College of Art	Boston, MA	Ken Berryman	617-232-1555

SYSTEMS CONFIGURATION—U.S. DEPARTMENT OF EDUCATION SOFTWARE (EDEXPRESS)

Public and Private Universities

Boise State University	Boise, ID	Lois Kelly	208-385-1540
University of Dallas	Dallas, TX	Peter Bagarozzo	214-721-5384
Rice University	Houston, TX	David Hunt	713-527-4958
Antioch University	Yellow Springs, OH	Sandy Tarbox	937-767-6400
Salisbury State University	Salisbury, MD	Beverly Horner	410-543-6165

Public and Private Colleges

Hope College	Holland, MI	Phyllis Hooyman	616-395-7765
East Central College	Union, MO	Pat Kackley	314-583-5193
Hampshire College	Amherst, MA	Kathleen Methot	413-582-5739
Gustavus Adolphus College	St. Peter, MN	Paul Aasen	507-933-7527

Public and Private Two-Year Schools

Northern Virginia Comm. College	Annandale, VA	Carol Mowbray	703-323-3199
Great Lakes Junior College	Saginaw, MI	Patricia Finerty	517-755-3457
Mesa Community College	Mesa, AZ	Joan Grover	602-461-7441
MaComb Community College	Warren, MI	Judith Florian	810-445-7535

Proprietary Schools

Drake Business College	New York, NY	Nazaret Kiregian	212-725-5757
Hagerstown Business College	Hagerstown, MD	Bob Gilgore	3010739-2670
Globe Institute of Technology	New York, NY	Marcus Browne	212-349-9768
Ohio Auto Diesel Tech	Cleveland, OH	Marc Brenner	216-881-1700

SYSTEMS CONFIGURATION—COMMERCIAL SOFTWARE

Public and Private Universities

University of Oregon	Eugene, OR	Edmond Vignoul	541-346-3205
Michigan State University	East Lansing, MI	Thomas Scarlett	517-353-4554
Auburn University	Montgomery, AL	Phyllis Stenson	334-244-3571
University of Missouri	Rolla, MO	Robert White	573-341-4282
Califronia State University	Los Angeles, CA	Vu Thanh Tran	213-343-3356
University of the Pacific	Stockton, CA	S. Lynn Fox	209-946-2421

Public and Private Colleges

Sunny College	Morrisville, NY	Elaine Chapin	315-684-6105
Central Arizona College	Coolidge, AZ	Henry Sredanovich	520-426-4426
Parkland College	Champaign, IL	Lack Lyons	217-351-2443
Glenville State College	Glenville, WV	Karen Lay	304-462-4103
William Paterson College	Wayne, NJ	Robert Raumel	201-595-3116
Morris Brown College	Atlanta, GA	Willie Williams	404-220-3707
West Hills College	Coalinga, CA	Karen Johnson	209-935-0801

Public and Private Two-Year Schools

Napa Valley College	Napa, CA	Jill Schrutz	707-253-3021
Smith College	Northampton, MA	Myra Smith	413-585-2530
Shawnee Community College	Ullin, IL	Ann Acton	618-634-2242

Proprietary Schools

Computer Learning Center	Anaheim, CA	Melinda Serban	714-956-8060
Kentucky College of Business	Lexington, KY	Fred Battle	540-986-1800
ECPI College of Technology	Virginia Beach, VA	Jeff Arthur	757-671-7171
Commonwealth Business College	Merrillville, IN	Linda Yednak	219-769-3321

The school information listed above is taken from the *Mainframe Systems Resource Book*. This book and additional Direct Loan information are available from the Direct Loan Task Force at (202) 708-9951.